

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4558-01
Bill No.: HB 1918
Subject: Emergencies; Insurance - General; Insurance - Property; Insurance Dept.
Type: Original
Date: April 8, 2008

Bill Summary: Establishes the Missouri Catastrophe Fund to help protect property and casualty insurers against insolvencies caused by earthquakes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Missouri Catastrophe	(\$168,112)	(Unknown less than \$246,378)	(Unknown less than \$254,610)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$168,112)	(Unknown less than \$246,378)	(Unknown less than \$254,610)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Missouri Catastrophe	4	4	4
Total Estimated Net Effect on FTE	4	4	4

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Accounting, COA - Administrative Hearing Commission, COA - Division of Budget and Planning, COA - Division of Risk Management/General Services, Department of Public Safety (DPS) - Director's Office, DPS - State Emergency Management Agency, Office of the Governor, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal for Administrative Rules is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of State Treasurer (STO)** state that although the proposal has no fiscal impact on the STO, according to Section 379.957 of this proposal states that the Missouri Catastrophe Fund within the treasury will be administered by the director. It also states that the director will invest the moneys in the fund under section 30.260, RSMo.

This has a direct effect on the STO as, the State Constitution, Article IV, Section 15 and Section 30.260, RSMo, establishes that the state treasurer shall be custodian of all funds deposited in the state treasury and has investment authority for those funds. Therefore, any bill providing for another agency to invest any portion of funds within the state treasury would therefore usurp the authority of the state treasurer as authorized by Section 30, RSMo.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the department has many duties under this proposal. The DIFP will require one (1) Insurance Regulatory Manager, Band 1 FTE, two (2) Product Analyst II FTEs, one (1) Actuary FTE, \$200,000 in one-time contract programming and \$20,000 in ongoing contract programming to implement this program. The insurance regulatory manager would be responsible for supervision of personnel, developing rules, policies and contract procedures. The insurance product analysts would review policies, administer the reimbursement contract, assist the rule promulgation and publication of fund information in the Missouri Register, and review other documentation received by the fund. The actuary would be required to ensure the premiums paid into the fund are actuarially indicated, monitor the retention multiples and assist

ASSUMPTION (continued)

in selecting the independent consultant to determine the premiums collected by the fund. The insurance regulatory manager, insurance product analysts and the actuary would also support the Missouri Catastrophe Fund Advisory Council in its duties. The contract programming is needed to setup the appropriate database for tracking, monitory and disbursing fund moneys as well as capturing company information.

The DIFP assumes if revenue bonds are required to be issued that the department would use an outside firm. The cost of issuing the revenue bonds, including the use of an outside firm, would be requested in future budget or supplemental budget requests.

The DIFP assumes 315 property and casualty insurance companies covering residential structures may pay the initial \$1,000 premium to startup the administration of the fund (315 companies X \$1,000 = \$315,000). The department has made no estimate on the amount of ongoing premium received into the fund. This will depend upon several factors that cannot be determined until the fund is created, i.e. insurance companies selection of the retention multiple.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
MISSOURI CATASTROPHE FUND			
<u>Income - DIFP</u>			
Initial setup premium	\$315,000	\$0	\$0
Premiums	<u>\$0</u>	<u>Unknown over \$100,000</u>	<u>Unknown over \$100,000</u>
Total <u>Income</u> - DIFP	<u>\$315,000</u>	<u>Unknown over \$100,000</u>	<u>Unknown over \$100,000</u>
<u>Costs - DIFP</u>			
Personal service (4 FTE)	(\$174,370)	(\$214,475)	(\$219,836)
Fringe benefits	(\$78,920)	(\$97,071)	(\$99,498)
Equipment and expense	<u>(\$229,822)</u>	<u>(\$34,832)</u>	<u>(\$35,276)</u>
Total <u>Cost</u> - DIFP	<u>(\$483,112)</u>	<u>(\$346,378)</u>	<u>(\$354,610)</u>
FTE Change	4 FTE	4 FTE	4 FTE
ESTIMATED NED EFFECT ON MISSOURI CATASTROPHE FUND			
	<u>(\$168,112)</u>	<u>(Unknown less than \$246,378)</u>	<u>(Unknown less than \$254,610)</u>
Estimated Net FTE Change for Missouri Catastrophe Fund	4 FTE	4 FTE	4 FTE

FISCAL IMPACT - Local Government

FY 2009
(10 Mo.)

FY 2010

FY 2011

\$0

\$0

\$0

FISCAL IMPACT - Small Business

The proposal may impact small businesses if coverage for certain natural disasters, like earthquakes, becomes more readily available and more affordable in areas prone to these types of natural disasters.

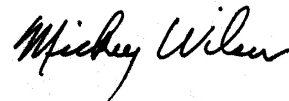
FISCAL DESCRIPTION

This proposal creates the Missouri Catastrophe Fund to help pay for covered residential property damage insurance claims after a catastrophe involving an earthquake. In its main provisions, the proposal: (1) Requires the Director of the Department of Insurance, Financial Institutions, and Professional Registration to establish the premium rate as determined by an actuarial formula developed by an independent consultant. The premiums will be paid by insurers, bond revenues, and appropriated state funds. The insurer's premiums will be calculated based on the amount of insurance coverage it provides; (2) Allows an insurer covered under the fund to be reimbursed based on a percentage of its losses in excess of the insurer's retention, plus 10% of that amount to cover loss adjustment expenses; (3) Allows the department director to issue bonds if moneys in the fund are insufficient to reimburse at the agreed to levels. If the actuarially indicated premiums are insufficient to fund revenue bonds to pay the reimbursement contracts, the department director will levy an emergency assessment to each property and casualty insurer in the state; (4) Allows the General Assembly to appropriate from 10% to 35% of the investment income of the fund from the prior fiscal year in a fiscal year when no outstanding obligations are incurred for the purpose of funding programs intended to improve catastrophe preparedness; (5) Establishes the Missouri Catastrophe Fund Advisory Council to provide the department director with information and advice regarding the fund and to develop prevention and mitigation standards that prevent or reduce damage from natural or man-made, covered losses; and (6) Requires the department director, upon the establishment of a similar federal or multistate program, to recommend to the General Assembly whether to coordinate with the program, terminate Missouri's fund, or take other appropriate action.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Accounting
 Administrative Hearing Commission
 Division of Budget and Planning
 Division of Risk Management/General Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Public Safety -
 Director's Office
 State Emergency Management Agency
Office of the Governor
Missouri Senate
Office of Secretary of State
Office of State Treasurer



Mickey Wilson, CPA
Director
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